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RUCPDOG/DEPT OF COMMERCE WASHINGTON DC

SENSITIVE  
SIPDIS

FOR CODEL GOODLATTE  
H-PASS

E.O. 12958: N/A  
TAGS: [OREP](#) [OVIP](#) [EAGR](#) [ECON](#) [UY](#)  
SUBJECT: SCENESETTER FOR CODEL GOODLATTE'S VISIT TO URUGUAY

REF: A. MONTEVIDEO 01104

[1](#)B. STATE 187235  
[1](#)C. STATE 187531

[1](#)1. (SBU) Summary: Embassy welcomes Codel Goodlatte to Uruguay and greatly appreciates its contributions to US foreign policy objectives. Your November 28-29 visit comes at an auspicious time in our bilateral relationship and will coincide with the arrival of the US Ambassador to Uruguay, Frank E. Baxter and his wife Kathrine. Agriculture remains the backbone of Uruguay's economy and the meetings with your counterparts in the Uruguayan congress are likely to draw wide public interest. This telegram supplements the political and economic briefings that you received in Washington by providing additional background information and highlights of recent developments, including:

#¿NOMBRE?

Presidential Chief of Staff Gonzalo Fernandez and Economy Minister Danilo Astori to discuss progress made on a Trade and Investment Framework Agreement (TIFA).

-- The November 21 decision by the International Finance Corporation (IFC) to support a major loan for a controversial giant pulp mill on a shared river with Argentina.

-- The November 20 ruling by a Florida judge to extradite notorious fugitive Uruguayan banker Juan Peirano Basso so that he can face charges related to the bilking of hundreds of millions of dollars from banks here.

#¿NOMBRE?

resonates here Uruguay is a member of the G-20 group calling for the elimination of these subsidies.

End Summary.

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Background  
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[1](#)2. (SBU) Uruguay's President: On May 4, President Vazquez met with President Bush in the Oval Office. Both leaders resolved to deepen the commercial relationship. Uruguay is important to U.S. interests as an example of temperate, long-standing democracy in a region that has, in many cases, lurched to the populist left. Vazquez has publicly stated that he seeks expanded trade ties with the US. While he is

sometimes hesitant to utter the words "Free Trade Agreement" in public, Vazquez and his administration have repeatedly signaled their willingness to expand trade with the US. Uruguay has also expressed general frustration with the Mercosur trading bloc -- and in particular Mercosur's unwillingness to resolve Uruguay's very serious paper mill dispute with Argentina. Vazquez is a pragmatist, and what he most wants for Uruguay is jobs, investment and growth. At home and abroad he has been caught between the competing demands of radicals and moderates and he is often challenged to balance these opposing interests. His leadership style is now predictable: he tends to stay above the fray and allow competing factions in the FA to debate an issue to exhaustion and then weighs in with a final decision.

13. (SBU) Domestic politics: Vazquez and his coalition Frente Amplio (FA) Government have been in power for about a year and a half and have generally received high marks, according to polling data. Vazquez' adroit and pragmatic leadership along with Uruguay's strong institutions and the basically conservative nature of its society prevented the radical tilt some observers predicted during the 2004 electoral campaign. The President seems to prefer the term "progressive" rather than "leftist" to describe his administration and some think that he seeks to emulate Chile's center-left brand of government. Looking back, Vazquez' campaign promise to "shake the trees to their roots" has meant more in terms of rejecting outdated rigid socialist thinking than anything else. The moderates in his cabinet have generally enjoyed the upper hand, and Vazquez has been more challenged by the

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radicals within his FA coalition than he has by the two discredited opposition parties (Blancos and Colorados) who ruled the country during the past century. In his efforts to be practical, Vazquez relies on a relatively small cadre of experienced officials to get things done. A key ally in domestic politics has been Agriculture Minister and ex-Tupamaro guerrilla leader Jose Mujica who, despite his past, has often countered the extreme ideologues on the far-left. Vazquez was also able to appease many radicals by addressing the human rights abuses committed during the "dirty war" period of the military dictatorship, by finding the buried bones of disappeared persons and by arresting some of the worst human rights abusers.

14. (SBU) This method has been tested in recent months as the GOU attempts to reform taxes, education, and defense -- and has faced several disputes involving the powerful communist-dominated labor unions. Minister of Economy Danilo Astori has tried to hold the line on government spending and has so far rejected proposals to increase the wages of government workers and medical personnel, opposed calls to delay loan repayments to international monetary institutions or to rescue indebted farmers. In fact, Astori recently announced that Uruguay was repaying its entire debt with the International Monetary Fund (IMF) early. President Vazquez tacitly supports Astori's orthodox positions on the economy, but both men have had to do so cautiously.

15. (SBU) Foreign policy: has been a formidable challenge, compounded by the stubbornly ideological, anti-US Foreign Minister Reinaldo Gargano. By far, the GOU's most serious problem has been the severe bilateral dispute with Argentina over the construction of paper mills on the shared Uruguay river -- not only because of soured bilateral relations with Uruguay's closest neighbor, but also because of the implications to foreign investment, an independent foreign policy, and Mercosur. Uruguay has a heavy debt burden and no known hydrocarbon deposits, so that Venezuelan oil and money provide considerable temptation for boosting the economy. Uruguay's state oil monopoly ANCAP recently signed a deal with Venezuela's state-owned PDVSA to help fund 24 percent of the cost of oil exploration in the Orinoco region of Venezuela in return for a proportionate share of the resulting oil. Details of the agreement remain murky, and

observers are skeptical if ANCAP can fund its end of the bargain or if the endeavor will result in significant gains for Uruguay. Vazquez appears to style himself more after Chile's ex-President Ricardo Lagos, and his mild leadership image sharply contrasts with the populism of Venezuela's Hugo Chavez, Argentina's Nestor Kirchner and Bolivia's Evo Morales.

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Issues Likely to Surface  
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¶6. (SBU) In August, the GOU made it clear publicly that it would have to define its position on trade with the United States by the time of a critical October Joint Commission on Trade and Investment (JCTI) meeting. Many sectors of the GOU, including President Vazquez, expressed strong interest in negotiating a Free Trade Agreement (FTA) with the U.S. However, neither side could reach the clear consensus needed to move forward. Instead, the U.S. and Uruguay will sign a Trade and Investment Framework Agreement (TIFA), which increases discussion of trade issues but falls short of Uruguay's desired market access. Uruguayans will be keenly interested to know if an FTA (and market access) is still possible and what the political changes in the U.S. Congress will mean for Uruguay, in particular the possibility of a renewal of Trade Promotion Authority.

¶7. (SBU) On May 19, U.S. Immigration and Customs Enforcement (ICE) agents arrested Juan Peirano Basso in the U.S., in connection with an \$800 million fraud scheme that is widely thought as having worsened the 2002 financial crisis in Uruguay. Peirano had entered the United States earlier and had been able to obtain Legal Permanent Residence Status

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(LPR). On November 20, a Florida judge ruled to extradite Peirano Basso back to Uruguay. News sources expect his lawyers to appeal the ruling. The case has generated intense media attention and goodwill from the GOU for U.S. forward-leaning cooperation in this case. Many Uruguayans feel personally offended by the bankers' actions because the alleged fraud directly harmed the financial situation of the nation and of many individuals. Peirano Basso's three brothers, also implicated in the case, are currently under arrest in Uruguay.

¶8. (SBU) The paper mill dispute with Argentina is Uruguay's most pressing foreign policy problem. The dispute over one Finnish paper mill under construction on the Uruguayan side of the shared Uruguay River, is an issue of paramount national interest. The plant's construction cost is estimated at 8% of Uruguay's GDP and its operation is expected to generate exports worth 2% of Uruguay's GDP. It represents the largest Foreign Direct Investment in Uruguay's history. Argentine government officials, some local inhabitants and environmental activists claim the plant would harm fishing, farming, and tourist areas along the Uruguay-Argentina border. Protesters from Argentina have blocked bridges between Argentina and Uruguay off and on since December 2005 at great cost to Uruguay's trade and tourism revenues. One of the bridges remains blocked. Four independent reports concluded that these concerns were exaggerated, since the plants use the latest technology available. Uruguay has recently complained at the OAS and pressed its case with the World Bank and the Mercosur Tribunal. On May 4, Argentina filed an injunction with the International Court of Justice to halt the construction of the paper mills, and on July 13, the Court refused to grant the injunction. There is still no date for a hearing on the merits of the case. Originally, another the Spanish company ENCE planned to build another plant nearby. Argentine pressure and delays in the World Bank loan caused ENCE to reconsider, and in September ENCE backed out of its plans. On November 21, Uruguay scored a clear victory when the World Bank approved the \$170 million loan for the project by a vote

of 23-1.

19. (SBU) Uruguay is a major agricultural producer. Agriculture and agro-industry account for 23% of GDP and over 75% of total exports. The major Uruguayan exports are meat (over \$1 billion this year), long-grain rice, dairy products, wool and soybeans. Forestry has surged over the last decade, due to favorable investment conditions and a a favorable climate, where eucalyptus grows almost ten times as fast as in the U.S. Uruguay does not import agricultural products but does import processed foodstuff. Uruguay applies a 6.6% average tariff on agricultural goods and does not impose any kind of import quota. There are no subsidies on agricultural production or exports. Given the importance of this sector for the economy, Uruguay has been active in bilateral and multilateral fora in pushing for trade liberalization. Agricultural subsidies are a hot topic. The GOU's trade policy on agriculture has generally been in line with Mercosur's, and Uruguay is a member of the G-20 group of countries calling for the elimination of agricultural subsidies. The GOU threatened last year to file a case with the WTO on U.S. rice subsidies. Embassy intervention allowed for the opening of a bilateral dialogue instead, to attempt to resolve the issue. Talks are ongoing, but the threat of an impending WTO case still remains.  
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